

ACKNOWLEDGEMENT

Crown Copyright documents reproduced by courtesy of The National Archives, London, England.

www.nationalarchives.gov.uk

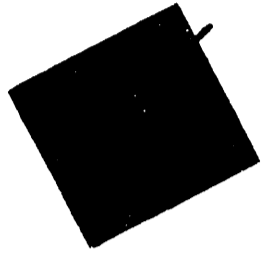
The National Archives give no warranty as to the accuracy, completeness or fitness for the purpose of the information provided.

Images may be used only for purposes of research, private study or education. Applications for any other use should be made to The National Archives Image Library, Kew, Richmond, Surrey TW9 4DU.

EASTERN

F.O.
371

1947



PALESTINE

File No. 4948

1					
2					
3					
4					
5					
6					

COPYRIGHT OF THE PUBLIC RECORD OFFICE, LONDON

Reference:-

FO 371 / 61929

**CLOSED
UNTIL**

61929

1978

1947

Palestine
EASTERN

E4948 /G
10 JUN 1947

E4948 14948 14
31/6
@M(48) 48th Comd
Min 4
dated 20 May
Received 10 June

Palestine: Financial Situation
Reports Cabinet discussion
of memo by S of S for Colonies.

Last Paper.
—

(Minutes.)

JB done 11

References.

(Print.)

(How disposed of.)

61929

(Action completed.)
25th 16

(Index.)
WJA

Next Paper.

1
2
3
4
5
6

COPYRIGHT OF THE PUBLIC RECORD OFFICE, LONDON
Reference:-
FO 371 / 61929

C.M. (47) 48th Conclusions of May 20th 1) Mr. Kyllar
E 2) East
3

PALESTINE 10 JUN 1947

Financial Situation.

(Previous Reference: C.M. (46) 75th Conclusions, Minute 1)

4. The Cabinet had before them a memorandum by the Secretary of State for the Colonies (C.F. (47) 161) on the financial effects of Jewish terrorism and other illegal activities in Palestine.

THE SECRETARY OF STATE FOR THE COLONIES said that the Palestine Government were concerned at the extent of the damage done by terrorists to public and private property, and the heavy cost of the measures necessary to check disorder and illegal immigration. The Government's annual expenditure on security measures was already over £8 millions in a Budget of £25 millions, and it was likely to increase. The Defence Committee had decided (D.O. (47) 7th Meeting) that the British Exchequer should not bear the cost of the arrangements for detaining illegal immigrants in Cyprus, and substantial expenditure on this account would also fall on the Palestine Government. The High Commissioner was examining the possibilities of imposing additional taxation, though this would undoubtedly provoke Arab

E4948

10 JUN 1947

1
2
1
3
4
5
2
6

COPYRIGHT OF THE PUBLIC RECORD OFFICE, LONDON
Reference:- FO 371 / 61929

4

resentment. Meanwhile, he had raised the question of compensation for the damage to the Shell Company's installations at Haifa Bay. Although the Palestine Government had not hitherto accepted responsibility for the payment of compensation for loss or damage caused by terrorists, the magnitude of the damage caused by this incident (£400,000) was thought to merit special treatment and it was proposed that an arrangement should be made with the oil companies under which the proceeds of a general increase to local prices would be made available in part to the Shell Company and in part for the development of backward Arab areas. The Cabinet should also be aware that the High Commissioner had put forward a proposal for the establishment of a general compensation fund by the arbitrary sequestration of certain Jewish communal funds. He would consult the Cabinet on this proposal in due course.

THE CHANCELLOR OF THE EXCHEQUER said that the financial position of the Palestine Government was not unduly serious. For the financial year 1946-47 they were likely to have a small surplus in spite of special security expenditure of over £3 millions. They had, moreover, an untouched balance of £3 millions which could properly be drawn upon. The British taxpayer could not be expected to assume further burdens in respect of Palestine; and the local Government should lose no time in imposing additional taxation. There was no need or justification for taxation discriminating between Jews and Arabs. He would deprecate the payment of compensation to the Shell Company which would place them in a favoured position vis-a-vis other private interests in Palestine. It was reasonable to expect the company to have insured against the risk of terrorist damage.

The Cabinet -

- (1) Asked the Secretary of State for the Colonies to inform the High Commissioner for Palestine that the Palestine Government should not look for further financial assistance from His Majesty's Government at the present time, and should take immediate steps to ensure a balanced budget by imposing additional measures of general taxation;
- (2) Decided that the High Commissioner for Palestine should not be authorised to impose or approve any measures designed to provide special compensation for the Shell Company for the damage caused by terrorists to their Haifa Bay oil installations.

1	2	3	4	5	6
	1			2	

Reference:-
FO 371 / 61929

COPYRIGHT OF THE PUBLIC RECORD OFFICE, LONDON

1947

Palestine
EASTERN

E5223 / G
19 JUN 1947

E 5223/4948/1
31/6

CP (47) 101

Dated 18 May
Received 19 June

Financial situation in Palestine
Memo by SO/S for Colonies.

Last Paper.

E4948

(Minutes.)

13 June 20

References.

(Print.)

(How disposed of.)

(Action completed.)

DF 20/6

(Index.)

WJS

Next Paper.

1
2
3
4
5
6

COPYRIGHT OF THE PUBLIC RECORD OFFICE, LONDON

Reference:-

FO 371 / 61929

19 JUN 1947

Index 6
K

(THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT)

SECRET

C.P.(47) 161

18TH MAY, 1947.

E 5223
18 JUN

COPY NO. 7

CABINET

PALESTINE

1) Mr. White
2) Mr. ...

FINANCIAL SITUATION: COST OF TERRORIST
DAMAGE AND OTHER ILLEGAL ACTIVITIES.

Memorandum by the Secretary of State for
the Colonies.

1. The Palestine Government have for some time been increasingly pre-occupied with financial problems resulting from the two main forms of Jewish illegal activity - terrorism and illegal immigration. They have evinced much concern, which I share, at the mounting damage to public and private property and at the heavy financial burdens imposed by their efforts to counter illegal immigration and check the activities of the terrorists. So far as property is concerned, no public provision exists for compensation and the Palestine Government do not, of course, admit any responsibility for losses. But public expenditure both by the Palestine Government and by His Majesty's Government continues to rise and the High Commissioner is much exercised as to the right method of meeting these additional charges.

2. The Palestine Financial Position.

The surplus funds of the Palestine Government are being rapidly wiped out. The direct cost to public funds in Palestine of terrorist activities over the last two years is well over £5,000,000, while the cost of security measures, including the evacuation of non-essential civilians and the loss resulting from the reduced effectiveness of the departmental services is probably even higher. The annual expenditure of the Palestine Government on security measures is now more than £8,000,000 in a budget totalling £25,000,000. This does not include a liability for the cost of the Cyprus camps for illegal immigrants and the hire of shipping in that connection, evacuation expenses, pensions and gratuities to dependants of officials killed in terrorist outrages and security measures such as the requisitioning of property. In 1946/47 these claims alone amounted to £2,650,000. During 1947/48 a deficit of £1,000,000 in the Palestine budget is expected, quite apart from the considerable cost of measures directed against illegal immigration, of Government losses from terrorist action and other security commitments. It is impossible to estimate the probable expenditure on these counts, but it may well be considerable. Furthermore, if the re-imposition of the vigorous measures taken a few months ago becomes necessary, the effect on general revenues would be serious.

1
2
3
4
5
6

COPYRIGHT OF THE PUBLIC RECORD OFFICE, LONDON
Reference:-
FO 371 / 61929

3. During the last two years military expenditure from Imperial funds in Palestine has amounted to £82,000,000. The Defence Committee (D.O. (47) Seventh Meeting) expressed the view that in present circumstances funds could not be found from United Kingdom sources to contribute towards expenditure by the Palestine Government on the Cyprus camps and other security measures, and urged that Palestine should consider ways and means of raising additional revenue to cover these expenses. In framing their general budget, the Government of Palestine have been constrained to eliminate all expenditure on development and social services which is not essential, to avoid regression. No further economy in this direction is possible.

4. I therefore consulted the Chancellor of the Exchequer regarding new means of taxation to meet these heavily increasing burdens and as a result I have referred certain proposals to the High Commissioner for consideration. The High Commissioner is now examining these proposals, but he has already indicated that the amount realisable in this way will in any event not be commensurate with the need, and that the additional burden inevitably placed on the Arab taxpayer would arouse a justifiable resentment in that Arabs would be made to pay taxes because of Jewish lawlessness. Discriminatory taxation is difficult to devise, for even when it is shown that the Jews will undoubtedly contribute the larger amount of the sum it is proposed to raise, and that that proportion of the sum which will fall on the Arabs can be returned to them in the way of social services, Arab political objection will still be strong. Jewish opposition to new taxation is also inevitable. Nevertheless, I am of the opinion that some increases in general taxation must be made.

5. Compensation for damage caused by terrorism

In regard to damage to property by terrorists, the High Commissioner, while admitting that Government has no responsibility to compensate for losses, has represented that the damage to the oil installations of the Shell Company at Haifa - estimated at \$400,000 - is by its very magnitude a special case. On the day following the attack on the Haifa installations, the Palestine Government, through its Public Information Officer, publicly stated that the cost of the damage would be recovered from the community, in one way or another. It is, of course, possible for the Shell Company to recover their losses by an increase in prices to local consumers, but such a step would produce windfall profits for other distributing companies in Palestine who would increase their prices in conformity. The High Commissioner therefore suggested that there should be imposed a special tax of 2 mills per litre on benzine and 400 mills per metric ton on furnace fuel for 18 months in the first instance. This tax is estimated to yield over that period \$477,000, of which \$344,000 would be derived from Jewish sources and \$133,000 from non-Jews. Of this total sum, the oil company would be reimbursed by Government up to an agreed percentage of their loss, and a sum equivalent to the estimated contribution by the Arab section of the population would be set aside by Government from its general revenue and devoted to measures, for which funds would not otherwise be available, for improving the more backward Arab areas of the country. The tax would thus be discriminatory in effect, but not in form. The High Commissioner is advised that it would not infringe the non-discriminatory provisions of Article 15 of the Mandate.

1
2
3
4
5
6

Reference:-

FO 371 / 61929

COPYRIGHT OF THE PUBLIC RECORD OFFICE, LONDON

8

6. This proposal is open to objection on the grounds that it favours an oil company in preference to all other interests, public or private, so far damaged by terrorism in Palestine. I feel that the singling out of a wealthy oil company to be the first recipient of "compensation" at the expense of the Jewish community, would be represented, by those concerned to make anti-British propaganda, as a demonstration of the underlying purposes for which Great Britain is in Palestine and in general as an indication of the subservience of our Palestine policy to strategic interests and especially those of Middle East oil. Moreover, so far as I am aware, no other private concern in Palestine has been thus compensated for damage caused by terrorist action. I put this objection to the High Commissioner and suggested, as an alternative, the creation by the imposition of a tax on oil of a "compensation" fund from which ex gratia payments might be made to any interest, public or private, injured by terrorist action, although I recognise that, from such a fund, a substantial contribution would be made to the Shell Company. I suggested that the regulations establishing such a fund might provide that the receipts from Arab sources should be devoted to the extension of social services and development work in Arab areas. Such an arrangement, which would not exclusively favour oil interests, could be defended against charges of discrimination against the Jewish community, on the grounds that by their refusal fully to co-operate with Government against terrorism, it was right and proper that they should contribute to remedy part of the damage which terrorism had caused. I invite my colleagues to endorse this proposal.

7. Establishment of a more comprehensive compensation fund.

The High Commissioner has submitted a further proposal designed to secure a contribution from the Jewish community towards the heavy costs incurred by Government in meeting the outrages and disorder caused by the Jews. He has asked for my approval of a draft bill to provide for the establishment of a "compensation" fund of £5,000,000, to be financed by amounts arbitrarily sequestered from certain Jewish communal funds. The legislation setting up this fund is so drafted as to avoid difficulties of communal discrimination under the Mandate. It would empower the Palestine Government to sequestrate the assets of any person or organisation specified by order and apply them to defraying the costs of acts of lawlessness by members of any section of the population of Palestine. The phrase "acts of lawlessness" would cover illegal immigration. The legislation would not be enacted immediately, but the High Commissioner desires to have approval for its enactment in the event of further large-scale terrorist outrages. Simultaneously, with the enactment, he would make an order under it sequestering certain corporate funds held in the name of various Jewish institutions, including the Jewish Agency and the Revisionist Organisation, both of whom are known to apply part of their corporate funds to the illegal immigration traffic. Funds devoted primarily to social services would be excluded. It would be made clear that, so far as terrorist damage is concerned, a contribution towards the cost of such damage would be recovered from the "compensation" fund only in respect of incidents occurring after the enactment of the Ordinance; if no such incidents took place no recovery would be made.

1	2	3	4	5	6
		1		2	

COPYRIGHT OF THE PUBLIC RECORD OFFICE, LONDON

Reference:-

FO 371 / 61929

9
End

8. This proposal is so drastic and far reaching in its implications that I must give it further study before making any recommendation to my colleagues. I feel, however, that they should know of its existence. It is of course a variant of the proposal made at the time of the Jerusalem Secretariat disaster, when the High Commissioner recommended the imposition of a fine of £500,000 on the Jewish community and the enactment of legislation to provide for the freezing of the funds of various Jewish corporate bodies and their sequestration, if necessary, as security against the payment of the fine. This recommendation was not approved by the Cabinet (C.M.(46) 75th Conclusions, Minute 1). I shall bring the matter again to the attention of my colleagues when I am in a position to state my considered views.

(Intll.) ...C.J.

Colonial Office, S.W.1.
18TH MAY, 1947.

1	2	3	4	5	6
		1		2	

COPYRIGHT OF THE PUBLIC RECORD OFFICE, LONDON
Reference:-
FO 371 / 61929